



July 1, 1998

Magalie Roman Salas  
Secretary  
Federal Communications Commission  
1919 M Street, N.W., Room 222  
Washington, DC 20554

Dear Ms. Salas:

In compliance with the request in the May 15, 1998 letter from Mr. A. Richard Metzger and consistent with the Commission's May 8, 1998 Report to Congress, we are submitting this Report and Plan of Reorganization approved by the Boards of Directors of the Universal Service Administrative Company (USAC) and the Schools and Libraries Corporation (SLC), and the accompanying Separate Statement approved by the Rural Health Care Corporation (RHCC).

Respectfully submitted,

Lisa Rosenblum  
USAC Chair

Kathleen "K.G." Ouye  
SLC Chair

Sanford D. Greenberg  
RHCC Chair

Cheryl L. Parrino  
CEO, USAC

Ira Fishman  
CEO, SLC

Lee E. Bailey  
President, RHCC

cc: Chairman William Kennard  
Commissioner Susan Ness  
Commissioner Harold Furchtgott-Roth  
Commissioner Michael Powell  
Commissioner Gloria Tristani



**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**  
**SCHOOLS AND LIBRARIES CORPORATION**  
**RURAL HEALTH CARE CORPORATION**

# REPORT TO THE FCC

Executive Summary  
Report and Plan of Reorganization

July 1, 1998

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# Executive Summary

## Goals of the Reorganization

This Report and Plan of Reorganization proposes a more streamlined and efficient organizational structure for administering the various universal service programs by merging the Universal Service Administrative Company (USAC), the Schools and Libraries Corporation (SLC) and the Rural Health Care Corporation (RHCC) into a single corporate entity, USAC. This new single corporate structure will bring significant efficiencies to the operation of all three programs by combining common functions and operations in those specific cases where consolidation is likely to achieve economies. The new structure will ensure the continued integrity of and focus on the targeted programs by vesting in committees, modeled on the High Cost and Low Income Committee as proposed, the authority to administer the distinctive programmatic functions of the two programs. The structure that is proposed recognizes and effectively balances the twin goals of efficiency and effectiveness.

The Plan of Reorganization specifically seeks to accomplish these goals:

- ◆ Efficient Administration of the Universal Service Programs
  - Consolidate Common Functions and Operations Where Efficiencies Would Be Achieved
  - Maintain Accountability to the FCC
  - Preserve Strong Safeguards and Audit Checks
  - Provide Continuity in the Administration of the Support Mechanisms
- ◆ Effective Implementation of the Programs
  - Preserve the Unique Missions, Expertise and Integrity of the High-Cost/Low-Income, Schools and Libraries and Rural Health Care Programs
  - Provide Professional Administration of the Funds
  - Provide Excellent Client Service to Each Client Base

# Current Organizational Structure, Function and Mission of the Three Corporations

The Commission directed the National Exchange Carrier Association, Inc. (NECA), as a condition of its appointment as the temporary Administrator of the Universal Service programs, to establish an independent subsidiary, the Universal Service Administrative Company (USAC), to administer temporarily the High-Cost/Low-Income support mechanisms and to perform billing, collections, and disbursement functions for all of the universal support mechanisms on a temporary basis. The Commission further required the establishment of a universal service advisory committee, pursuant to the Federal Advisory Committee Act, that would recommend to the Commission a neutral third party to assume these functions on a permanent basis. The Commission also directed NECA, as a condition of its appointment as the temporary Administrator, to establish two independent corporations, the Schools and Libraries Corporation (SLC) and Rural Health Care Corporation (RHCC), to administer portions of the support mechanisms for schools and libraries and health care providers, respectively. These corporations would serve as permanent administrators of those mechanisms.

## Universal Service Administrative Company

USAC is responsible for collecting and disbursing funds for the interstate High-Cost fund mechanism (the HCF), which includes High-Cost loop support (USF), Local Switching Support (LSS) and Long Term Support (LTS) mechanisms, and the interstate Lifeline Assistance fund. These functions are a direct outgrowth of telecommunications industry cost recovery mechanisms that have been in place for many years. USAC is also responsible for billing contributors, collecting contributions to the universal service support mechanisms, and distributing the universal service support funds for all of the universal service support programs (schools and libraries, rural health care, low-income consumers, and high-cost areas).

## Schools and Libraries Corporation

SLC is charged with administering the application process, including the independent review of applications for compliance with FCC rules, creating and maintaining a website to post service applications, and performing outreach and public education functions needed to administer the schools and libraries program.

## Rural Health Care Corporation

RHCC is charged with administering the application process, including the independent review of applications for compliance with FCC rules, creating and maintaining a website to post service applications, and performing outreach and public education functions needed to administer the rural health care program.

# EVALUATION OF FUNCTIONS

In implementing the reorganization Plan, it is important to determine where opportunities for efficiency exist through the common operation of previously separate functions. Minimizing costs and the burden on consumers by eliminating duplicative functions is one of the major goals of this reorganization. In consolidating programs and operations, USAC's various committees and officers will confer and the USAC CEO will coordinate this effort.

The functions initially identified for consolidation are: office space, insurance, employee benefits and human resources, administrative policies, procedures and practices, accounting systems, auditing, reporting to federal agencies and Congress, budget, liaison with FCC and carriers, regulatory filings, counsel, information systems, invoice processing, boards and management.

The organization will continue to evaluate its operations. As we gain experience, additional opportunities for consolidation and efficiencies may be discovered. The USAC CEO will be on each programmatic Committee of the board which will ensure continued coordination and the ability to identify additional operating efficiencies.

# STRUCTURES CONSIDERED AND RECOMMENDATION

Two restructuring options are available to achieve the Congressional and Commission goals reflected in the May 8th Report to Congress. They are:

**(A) the Merger Option** -- SLC and RHCC would merge into USAC in accordance with a merger agreement whereby the USAC Board and CEO would oversee all of the universal service programs. It would set up separate high cost and low income, schools and libraries and rural health care divisions overseen by separate committees of the board to perform the functions appropriate to their specialized expertise and missions, and common functions would be administered centrally by USAC; and

**(B) the Subsidiary Option** -- SLC and RHCC would convert to stock, not-for-profit corporations, issue their stock to USAC thereby becoming subsidiaries of USAC, cede functions common with each other to be discharged by USAC directly or through some outside service provider, and retain functions appropriate to their own specialized expertise and mission.

The Report and Plan of Reorganization recommends that the FCC adopt the Merger Option. The Merger Option will best accomplish the goals of the reorganization by increasing efficiencies through consolidation while preserving the unique functions and missions of the three universal service programs.

# Summary of the Reorganization

The USAC Board of Directors would have responsibility for all universal service programs. The USAC board will consist of the current board with the addition of the USAC CEO, who would have overall management responsibility for the programs. The plan calls for three-year, staggered terms of the directors (the USAC CEO will have a permanent seat). The staggering of terms will provide for continuity on the board.

The plan recommends that USAC become the permanent administrator and that it be divested from NECA as soon as possible.

The new USAC board will create two new committees: the Schools and Libraries Committee and the Rural Health Care Committee. Those committees are modeled after the High Cost/Low Income Committee in existence today. Under the direction of the USAC Board, the Committees will have responsibility for the programmatic functions of each of the universal service programs. Decisions of the Committees are subject to full board review and decisions of those Committees can be modified or rejected by a supermajority of the board.

The USAC operations will consist of three program divisions: High-Cost/Low-Income, Schools and Libraries and Rural Health Care, each of which will be headed by a corporate officer and will have assigned staff. The combined USAC will have a small core group of permanent staff who will supervise the work of contractors for many of the administrative functions. The functions of collecting funds from contributors and disbursing these funds to program recipients and other common functions will be operated by USAC. To the extent practicable and depending upon the needs of the different programs, staff activities may be integrated across division lines.

# Conclusion

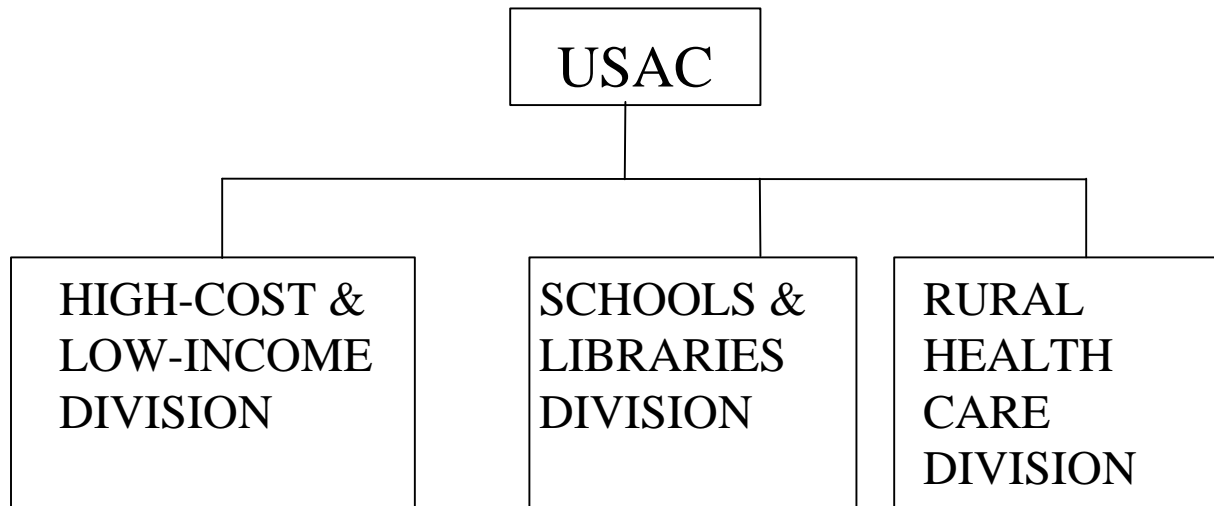
Consistent with the direction from the FCC and Congress to maximize efficiencies in the administration of the federal universal service programs, the proposed reorganization plan would merge the current universal service administrative organizations into one entity -- USAC. The USAC Board of Directors will be responsible for the operation and administration of all universal service programs. Consolidation of certain responsibilities will bring the efficiencies and accountability that the Commission and the Congress are seeking. Three key board committees will have responsibilities for the three program areas; High-Cost/Low-Income, Schools and Libraries, and Rural Health Care. Two of the committees proposed are new and the structure of those committees will be patterned after the High Cost and Low Income Committee as proposed in this report. The new USAC Board in cooperation with the Committees will ensure that the unique functions will be preserved and that the programs will be effectively administered.

USAC will have three divisions for each of the universal service programs: High-Cost/Low-Income, Schools and Libraries, and Rural Health Care. These divisions will report to the CEO of USAC, and they will have responsibility for managing the unique functions. This operational structure replicates that of the USAC Board and ensures that the new USAC Board and organizational structure can accomplish the twin goals of the reorganization: efficient and effective administration of the programs. With these organizational changes, the USAC is positioned to effectively and efficiently implement the complex task of administering the federal universal service programs in an emerging competitive environment.

# Appendix A

## Organizational Chart

THE NEW USAC ORGANIZATIONAL STRUCTURE



# Appendix B

## Requirements of Congress Addressed in the Plan

	Requirement	How the Requirement is Met By the Plan
Congress - Senate Bill 1768, S2004(b)(2)	The Report should propose a revised structure for the administration of the programs. The revised structure shall consist of a single entity.	<ul style="list-style-type: none"> <li>• The corporations will merge into one single company, USAC, to administer all three programs.</li> <li>• All programs will be governed by one board and managed by one CEO.</li> </ul>
Congress - Senate Bill 1768, S2004(b)(2)(A)(i) & (ii)	USAC's authority should be limited to ministerial acts of processing the applications. May not administer the programs in any manner that requires it to interpret the intent of Congress or any FCC rule.	<ul style="list-style-type: none"> <li>• The applications will be processed by the divisions in accordance with FCC rules.</li> <li>• USAC will make quarterly filings (or more frequently if requested) with the FCC regarding each fund.</li> <li>• The FCC reviews the structure and content of the independent audit of USAC.</li> <li>• The FCC will determine the amount to be collected and distributed.</li> <li>• The FCC will determine the amount of money allocated to each program.</li> </ul>
Congress - Conference Report	Take into account the distinct mission of providing universal service to rural health care providers.	<ul style="list-style-type: none"> <li>• USAC by-laws will provide for specific committees of the Board for Schools and Libraries (SL) and Rural Health Care (RHC).</li> <li>• The SL and RHC Committees will have independent decision making with regard to fulfilling the unique mission that can be modified by supermajority vote of the USAC board.</li> <li>• Separate operational divisions of USAC will be responsible for ensuring that these distinct missions are fulfilled.</li> <li>• Each division will be headed by an official with the targeted responsibility of achieving the specific program goals.</li> </ul>



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## Goals of the Reorganization

**T**his Report and Plan of Reorganization proposes a streamlined and efficient organizational structure for administering the various universal service programs by merging the Universal Service Administrative Company (USAC), the Schools and Libraries Corporation (SLC) and the Rural Health Care Corporation (RHCC) into a single corporate entity, USAC. USAC recommends that it be divested from NECA. This new single corporate structure will bring significant efficiencies to the operation of all four programs by combining common functions and operations in those specific cases where consolidation is likely to achieve economies. The new structure will ensure the continued integrity of and focus on the targeted programs by vesting in committees akin to the one that administers the High-Cost/Low Income Program the authority to administer the distinctive programmatic functions of those two programs. The structure that is proposed recognizes and effectively balances the twin goals of efficiency and effectiveness.

The Plan of Reorganization specifically seeks to accomplish these goals:

- ◆ Efficient Administration of the Universal Service Programs
  - Consolidate Common Functions and Operations Where Efficiencies Can Be Achieved
  - Maintain Accountability to the Commission
  - Preserve Strong Safeguards and Audit Checks
  - Provide Continuity in the Administration of the Support Mechanisms
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  - Preserve the Unique Missions, Expertise and Integrity of the High-Cost/Low-Income, Schools and Libraries and Rural Health Care Programs
  - Provide Professional Administration of the Funds
  - Provide Excellent Client Service to Each Client Base

The Boards of Directors and the Officers of USAC and SLC believe this Report and Plan of Reorganization meets the requirements of the Commission and

the Congress. We are committed to implement this Plan in an efficient and expedient manner. We understand that the implementation of the Plan must be successful in order to achieve these goals and in order to effectively administer the Universal Service Programs that are so critical to the citizens of this country.

## Current Organizational Structure, Function and Mission of the Three Corporations

### Overview

The Commission directed the National Exchange Carrier Association, Inc. (NECA), as a condition of its appointment as the temporary Administrator of the Universal Service programs, to establish an independent subsidiary, the Universal Service Administrative Company (USAC), to administer temporarily the High-Cost/Low-Income support mechanisms and to perform billing, collections, and disbursement functions for all of the universal support mechanisms on a temporary basis. The Commission further required the establishment of a universal service advisory committee, pursuant to the Federal Advisory Committee Act, that would recommend to the Commission a neutral third party to assume these functions on a permanent basis. The Commission also directed NECA, as a condition of its appointment as the temporary Administrator, to establish two independent corporations, the Schools and Libraries Corporation (SLC) and Rural Health Care Corporation (RHCC), to administer portions of the support mechanisms for schools and libraries and health care providers, respectively. These corporations would serve as permanent administrators of those mechanisms.

### Universal Service Administrative Company

USAC is responsible for collecting and disbursing funds for the interstate High-Cost fund mechanism (the HCF), which includes High-Cost loop support (USF), Local Switching Support (LSS) and Long Term Support (LTS) mechanisms, and the interstate Lifeline Assistance fund. These functions are a direct outgrowth of telecommunications industry cost recovery mechanisms that have been in place for many years. USAC is also responsible for billing contributors, collecting contributions to the universal service support mechanisms, and distributing the universal service support funds for all of the universal service support programs (schools and libraries, rural health care, low-income consumers, and high-cost areas).

### Corporate Governance

USAC is a private, not-for-profit Delaware corporation, and a wholly-owned subsidiary of NECA. The USAC Board is comprised of seventeen industry and beneficiary representatives who are nominated from the private sector by those industry segments represented on the board. This broad representation of interests

ensures the fund will be administered in a neutral and efficient manner. The FCC Chairperson formally selects and appoints the board members. The High Cost and Low Income Committee of the USAC Board is responsible for implementing and overseeing designated aspects of the support mechanisms for High-Cost/Low-Income consumers. The Committee has the power and authority to bind the USAC Board on specified matters relating to the administration of the support mechanisms for those two areas.

#### Overview of the High-Cost/Low-Income Programs

While implementation of The Telecommunications Act of 1996 required numerous changes to the Commission's universal service rules to be consistent with the transition to competition,<sup>1</sup> the underlying goals and basic operations of the programs remained the same. Under the revised structure, for example, all telecommunications carriers must contribute to universal service support mechanisms. Changes have also been made in the manner in which exchange carriers calculate universal service costs. For example, universal service funding now includes a portion of local switching costs.<sup>2</sup>

#### High-Cost Programs

Subpart F of Commission's Part 36 rules and Subpart D of the Commission's Part 54 rules describe the universal service mechanisms that are available for eligible telecommunications carriers serving High-Cost areas beginning January 1, 1998.<sup>3</sup> These programs include the loop cost expense adjustment (USF), local switching support (LSS) and long term support (LTS). Support is provided from the USF to those carriers whose local loop costs are in excess of 115% of the national average and each receives a portion of their costs above that threshold in order to help offset those costs.<sup>4</sup> USF expense adjustment payments for calendar year 1998 are projected to be \$826.5 million.<sup>5</sup> Support is provided under the LSS to telephone company areas having 50,000 or fewer access lines to support local switching costs. The total 1998 local switching support is estimated to be \$398.7 million. Those carriers who participate in NECA's Common Line pool are also eligible to receive long term support from the federal High-Cost support programs.<sup>6</sup> Total 1998 long term support is estimated to be \$472.8 million.

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1 See 47 U.S.C. 254, 47 C.F.R. Part 54.

2 See, e.g., 47 C.F.R. § 54.301.

3 47 C.F.R. 36.631 and 47 C.F.R. 54.301-54.303.

4 See 47 C.F.R. 36.631.

5 The USF cap methodology requires periodic updates to account for increases in prior calendar year payment amounts.

6 47 C.F.R. 54.303.

#### Low-Income Programs

As a requirement for eligibility for receipt of support, carriers must offer Lifeline programs to qualified low-income consumers. Carriers that provide Lifeline and Linkup programs in accordance with section 54 Subpart E of the Commission's Rules and have met the other conditions of eligible carrier status are entitled to receive funding from the federal Universal Service programs for waiving one time charges and for providing reduced rates to qualified low-income subscribers.<sup>7</sup>

Specifically, the federal Lifeline program provides funding from the interstate jurisdiction of up to \$7.00 toward the cost of monthly telephone service. The federal Link-up program provides funding for 50% discounts, up to \$30, for the one time charges for connection or the interest foregone from a deferred schedule of payment for those connection charges. Additionally, the federal program compensates eligible telecommunications service providers for providing voluntary toll limitation based on the carrier's incremental cost of providing toll-limitation services. Finally, the Commission established that eligible carriers, required to assess Presubscribed Interexchange Carrier Charges (PICCs) in their access charges, may also receive compensation for the PICCs associated with low-income subscribers that voluntarily have selected toll-blocking service.

Lifeline and Link-Up components of the program for calendar year 1998 are projected to be approximately \$492 million. It is anticipated that the toll limitation and PICC components will add an additional requirement of approximately \$12 million, resulting in an annual requirement of \$504 million.

#### Billing, Collection and Distribution

USAC calculates the total of all contributing entities' interstate, intrastate, and international end user telecommunications revenues. USAC submits this information along with High-Cost/Low-Income demand projections and budget estimates to the FCC on a quarterly basis. The FCC then establishes contribution factors for carrier contributions. USAC also reviews and processes data submitted by service providers and disburses payments to eligible service providers, as directed by the High Cost and Low Income Committee and the SLC and the RHCC.

Schools and  
Libraries  
Corporation

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SLC is charged with administering the application process, including the independent review of applications for compliance with FCC rules, creating and maintaining a website to post service applications, and performing outreach and public education functions needed to administer the schools and libraries program.

#### Corporate Governance

SLC is an independent, private, not-for-profit, Delaware corporation, incorporated by NECA pursuant to FCC Order. The SLC Board is comprised of five

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<sup>7</sup> 47 C.F.R. 54.401-54.417.

industry and beneficiary representatives, its CEO, and one independent director. SLC board members are nominated from the private sector by those industry segments represented on the board, with the exception of the independent director position and the CEO. The FCC Chairperson (and in certain circumstances, USAC) formally selects and approves board members.<sup>8</sup> The SLC Board is responsible for implementing and overseeing the universal service support mechanism for schools and libraries.

#### Services to Schools and Libraries

The Schools and Libraries Universal Service support mechanism helps provide affordable access to telecommunications services for all eligible schools and libraries, particularly those in rural and inner-city areas. The Telecommunications Act of 1996 expanded the concept of universal service and obligated all telecommunications carriers to provide “services to elementary schools, secondary schools, and libraries for educational purposes at rates less than the amounts charged for similar services to other parties.”<sup>9</sup> The program provides discounts of 20% to 90% on telecommunications services, Internet access and internal connections. It is capped at \$2.25 billion annually.

The level of discounts that schools and libraries are eligible to receive depends on economic need and location, rural or urban. Once approved, schools and libraries apply their discounts to telecommunications services, Internet access and internal connections, and are responsible for paying the undiscounted portion.

Eligible applicants must submit forms describing the services that an applicant intends to purchase (Form 470), the services for which funding is requested (Form 471), and confirming that services have begun to be delivered and that its technology plan has been approved. SLC developed a website for the benefit of recipients and as a mechanism for processing applications, in accordance with FCC direction as prescribed in the program rules. Each form requires that the applicant certify compliance with FCC program rules.

Rural Health Care  
Corporation

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RHCC is charged with administering the application process, including the independent review of applications for compliance with FCC rules, creating and maintaining a website to post service applications, and performing outreach and public education functions needed to administer the rural health care program.

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<sup>8</sup> See September 9, 1997 News Release announcing all of the Directors of the Corporations.

<sup>9</sup> See 47 U.S.C. 254(h)(1)(B).

#### Corporate Governance

RHCC is an independent, private, not-for-profit Delaware corporation incorporated by NECA, pursuant to FCC Order. RHCC board members are nominated from the private sector by those industry segments represented on the board. Specifically, the RHCC Board is comprised of three industry and beneficiary representatives and one independent director, plus an additional board seat reserved for the CEO.<sup>10</sup> The FCC Chairperson (and in certain circumstances, USAC<sup>11</sup>) formally selects and approves board members. The RHCC Board is responsible for implementing and overseeing designated aspects of the support mechanisms for the telecommunications carriers and the rural health care providers.

#### Services to Rural Health Care Providers

The Rural Health Care Universal Service fund was authorized by Congress and designed by the FCC to make advanced telecommunications services affordable for rural health care providers. The Telecommunications Act of 1996 expanded the concept of universal service and obligated all telecommunications carriers to provide “telecommunications services which are necessary for the provision of health care services in a State, including instruction relating to such services, to persons who reside in rural areas in that State at rates that are reasonably comparable to rates charged for similar services in urban areas in that State.”<sup>12</sup> Support applies to monthly telecommunications service charges and installation charges, but not terminal equipment costs.

The level of discounts rural health care providers receive depends on location and the type of service requested. Support is available for any telecommunications service within a maximum bandwidth of 1.544 Mbps. Support is also available for limited long distance charges to an Internet Service Provider (ISP). Once approved, the discount is applied to the telephone bill of the rural health care provider.

All health care providers (HCPs), including those in a consortium, that seek to participate in the Universal Service Support Fund program for telecommunications services must complete a form that: describes its desired telecommunications services; certifies that it meets the program's eligibility requirements; verifies the types and quantities of services ordered; and certifies the telecommunications service provider contracted with is the most cost effective after other factors were considered.

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<sup>10</sup> The RHCC Board selected a proposed CEO on January 27, 1998, but approval has not yet been received from the FCC Chairperson.

<sup>11</sup> See 69.617(c)(3).

<sup>12</sup> See 47 U.S.C. 254(h)(1)(A).

## EVALUATION OF FUNCTIONS

### Identifying Common and Unique Functions

In implementing the reorganization Plan, it is important to determine where opportunities for efficiency exist through the common operation of previously separate functions. As described in Chapter 1, minimizing costs and the burden on consumers by eliminating duplicative functions is one of the major goals of this reorganization. In consolidating programs and operations, however, USAC's various committees and officers intend to confer regarding which of the disparate current approaches are appropriate and which should be maintained for the unified entity or whether an entirely new mechanism is more appropriate.

Upon reorganization, it is equally important to ensure that efficiencies and cost savings are not sacrificed by attempting to consolidate functions that are unique to one committee and division or for which one committee and the division may enjoy particular expertise and therefore would achieve greater efficiencies by retaining separate operations. In this regard, the FCC specifically contemplated that "the specialized knowledge and expertise of SLC and RHCC would be maintained in the unified structure."<sup>13</sup> In addition, some operations are more appropriately kept separate for a transitional period in order to maintain continuity for employees and the public or to allow for the expiration or assignment of existing contracts which are operating effectively.

Set forth below are a listing and a short description of the functions currently performed by USAC, SLC, and RHCC, which: (1) will be operated commonly; and (2) are unique to one committee and division and will remain separate. There is also a brief discussion of the reasons for classifying the functions in this manner.

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<sup>13</sup> May 8, 1998 Report to Congress at ¶ 11.

Common  
Functions –  
Opportunities for  
Efficiency

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Administration

Office Space

Currently USAC, SLC, and RHC have separate office space, furniture and fixtures, telephones, copiers, and reception facilities. In addition, the entities maintain separate mail and purchasing functions. Consolidating these functions would promote the ability of the committees and divisions to work together cohesively. While there are current leases and other contracts that must be taken into consideration, a combined USAC office by January 1, 1999 is obtainable.

Insurance

USAC intends to obtain common insurance coverage for all necessary items, including property, liability, and Directors and Officers. The increased volume is expected to render the procurement of these services from one underwriter more cost effective. Some contracts may be assigned and USAC will have to determine which of the existing plans is the most beneficial for the unified entity.

Employee Benefits and Human Resources Administration

Common programs for human resource administration, employee health insurance, pension, and compensation benefits are necessary for the combined entity. It would likely impair morale and be more costly to maintain separate plans for employees who work in the same office and perform similar functions. USAC intends to consult with the different committees and divisions to determine, however, which of the existing programs is most appropriate for the unified entity or whether an entirely new program should be implemented. Additionally, efficiencies will be gained by unifying the human resource administrative functions.

Administrative Policies, Procedures, and Practices

One set of policies, procedures, and practices will be developed for the combined entity. The new Board will determine whether existing policies need to be revised to take into account the unique nature of each committee and division.

Finance

Accounting System

The combined entity intends to maintain a common general ledger and data on receipts and disbursements, general reporting, and bank balances, while maintaining the capacity to differentiate the costs of each of its divisions. In addition, USAC will use one set of accounting policies, practices, and procedures and common bank accounts. There will also be consolidated USAC financial statements. The payroll system, whether maintained internally or outsourced, will be combined as soon as feasible. The new Board will look at whether any of the existing accounting systems should be retained or modified and whether it makes sense to continue to use outside accountants or to bring the functions other than the independent audit in house.

#### Auditing

Financial and operational auditing functions will be combined. Certain program performance evaluations will remain separate; however, it is the intent to engage one auditing firm for the entire audit.

#### Agency Reporting Requirements

Currently, each entity is responsible for complying with the reporting requirements of the FCC, the Treasury Department, the Office of Management and Budget, and other agencies. While individual program information will still be required for most reports, preparing, submitting, and retaining records regarding the reports on a centralized basis would be more efficient. Necessary information unique to one of the divisions can easily be obtained from that division.

#### Budget

One budget will be prepared by USAC and approved by the USAC board for submission to the FCC for final approval consistent with section 69.620(b). The portion of the budget related to common functions will be prepared by the USAC CEO. The programmatic budgets developed by the Committees are subject to full Board review as part of the entire budget. The programmatic budgets can be modified by a two-thirds vote of the Board.

#### Legal and Regulatory

##### Liaison With FCC/Carriers

As appropriate, a common liaison with the FCC and contributing carriers for all universal service programs would be more efficient, cost effective, and would help prevent agency and public confusion from overlapping and possibly contradictory communications. On occasion, a liaison for separate and unique activities may be more appropriate.

##### Regulatory Filings

As noted above, regulatory filings should be consolidated, as appropriate.

##### General Counsel/Outside Counsel

As appropriate, one in-house general counsel will be employed for the combined entity. The CEO will determine who that individual should be. Common outside counsel will also be used by all the committees and divisions, which will help ensure that USAC operates in a consistent and coordinated fashion. On occasion, counsel for certain unique activities may be more appropriate.

#### Information Systems

##### Information Architecture

By January 1, 1999, USAC intends to be operating with common cost-effective information systems. The process of combining office space and

administrative and accounting functions would be seriously hampered if each division continued to use separate and possibly incompatible information systems.

#### Operations

##### Invoice Processing

USAC, SLC, and RHCC all currently propose to use the same invoice format. Therefore, combining the function would be easy and would result in increased efficiency. Although the forms submitted by the carriers may be different for each program, USAC intends to utilize a clearinghouse approach to process invoices and bill carriers. It would be extremely inefficient to maintain separate clearinghouses.

##### Board and Management Structures

As discussed in Appendix A, there will be one Board for the merged entity consisting of 18 members. Two new Committees, the Schools and Libraries Committee and the Rural Health Care Committee will be added and will have independent decision making with respect to programmatic matters applicable to fulfilling their specific missions that can be modified by a two-thirds vote of the Board. Issues for full Board review could be brought to the Board by the CEO. Overall management will be consolidated. Consolidating management functions in this manner will help ensure consistent and efficient operations by USAC.

##### Management

The USAC CEO will have overall management responsibility for all employees. That management responsibility can be delegated to the heads of the three divisions.

Unique Functions  
– Need for  
Effectiveness

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#### Administration

##### Liaison with Communities

The programs operated by High-Cost/Low-Income, SLC, and RHCC serve and will continue to serve unique communities. Each of these entities has developed contacts and established a separate public identity, and has particular expertise in dealing with the issues that arise. Accordingly, each of the committees and divisions of the combined entity will continue to communicate separately with its community of interest and, to the extent necessary, will maintain separate communications with vendors unique to that community. The formation of advisory committees may be used to enhance client relations.

#### Finance

##### Auditing

It will be more efficient to utilize one auditor to perform accounting evaluations and to examine common operational systems and programs. However, each of the divisions is charged with implementing a very different program, so it may be necessary to hire a different firm to conduct one or all of the audits. Accordingly,

audits of program-specific functions, such as interaction with communities of interest and review of certain customer submissions, should remain a separate and distinct portion of the audit, that ideally would be performed by a single firm.

#### Budgeting

The budget for the unique program functions would be developed by the Division head and reviewed and approved by the appropriate committee of the board. The division budgets would be part of the overall USAC budget reviewed by the USAC board. Changes to the programmatic budgets would require a two-thirds supermajority vote of the USAC board. This higher threshold preserves the unique programmatic function and expertise while providing the USAC board with oversight.

#### Operations

##### Program Management

Program design and the systems developed to implement each program, including program staffing and budgeting, are unique to each program and will remain separate. Development of programs to raise and disperse private foundation funds would also be separate. The USAC CEO and board would have oversight over staffing and budgeting as provided for in Appendix A-1 and A-2.

##### Client Service Support

The employees or contractors staffing client support centers require specific knowledge of the particular programs and communities they serve. In addition, demand peaks and valleys will vary significantly from program to program. Therefore, at least for the short term, the divisions will be able to operate more effectively if client support remains separate. In the future, as the database systems and invoice processing mechanisms are centralized, USAC will reevaluate whether combining client service support functions makes sense.

##### Websites

Both RHCC and SLC have developed their own websites to fit their program needs. Consolidating the websites at this time raises concerns about cost, congestion, and community confusion. Ultimately, however, it may be more efficient for the public to utilize and USAC to maintain one website for all universal service programs. At a minimum, a unified maintenance structure would generate efficiencies. In the meantime, each of the divisions will add links to the other program websites to aid the public in obtaining universal service information easily.

##### Program Integrity Assurance

One of the major functions of any universal service system is to evaluate on a routine basis the overall success of the program. For example, it is imperative that the schools and libraries program have in place a mechanism to determine whether and to what extent schools and libraries are properly receiving the disbursed funds. In addition, the High-Cost program must be able to evaluate whether customers in rural

and insular areas are receiving telecommunications services at affordable rates. Because each program is set up to accomplish a unique objective, the process of ensuring program integrity and evaluating progress should be done on a separate basis. Moreover, because it would be a one-time function, any pre-disbursement review of a program that is undertaken should be done separately.

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#### Conclusion

The organization will continue to evaluate its operations. As we gain experience, additional opportunities for consolidation and efficiencies may be discovered. On the other hand, we may find that some areas that were consolidated must be separated to ensure effective and economical service to diverse constituencies.

## STRUCTURES CONSIDERED AND REASONS FOR RECOMMENDATION OR REJECTION

### Overview

Two restructuring options are available to achieve the Congressional and Commission goals reflected in the May 8 Report to Congress. They are: (A) the Merger Option -- SLC and RHCC would merge into USAC in accordance with a merger agreement whereby USAC would have overall responsibility for all programs. USAC would set up separate High Cost/Low Income, Schools and Libraries and Rural Health Care divisions overseen by separate committees of the board to oversee those specialized functions appropriate to their specialized expertise and missions, and (B) the Subsidiary Option -- SLC and RHCC would convert to stock, not-for-profit corporations, issue their stock to USAC thereby becoming subsidiaries of USAC, cede functions common with each other to be discharged by USAC directly or through some outside service provider, and retain functions appropriate to their own specialized expertise and mission.

Under both scenarios, USAC would become a separate entity divested from NECA. Under both options, USAC's certificate of incorporation and by-laws would be amended to protect the distinctive expertise and missions of the programs (modeled on the provisions in both documents that now cover the High-Cost/Low-Income programs), and to prevent subsequent amendment without FCC approval. Both options would also assure that the assets and liabilities of SLC and RHCC would be combined and preserved intact in USAC, and both would assure continuity of personnel and of appropriately distinctive systems.

The two options are evaluated below in terms of brief description, advantages and disadvantages.

### Merger Option

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#### Description

By vote of the SLC, RHCC and USAC boards, the corporations would enter into an agreement and plan of merger to merge the first two into USAC.

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The agreement of merger and amendments to USAC's certificate of incorporation and by-laws (to be reflected in corresponding changes in the Commission's Rules) would provide for separate committees of the board, to oversee the distinctive mission and expertise of the high cost and low income, schools and libraries and rural health care programs. These new provisions would be modeled on the provisions that govern the committee for USAC's High-Cost/Low-Income programs.

As with the by-law provisions and FCC rules for the High-Cost/Low-Income programs, these new provisions would specify the make-up of each of these two new committees. These basic provisions could be significantly changed only by USAC with prior FCC approval.

#### Advantages

The Merger Option provides a more streamlined organizational structure. The Merger Option also provides for further streamlining in the future.

The Merger Option would preserve the separate missions of SLC and RHCC through the board committee and division structures; however, it would fold all operations under one board and one executive officer, operating under one unified budget.

The Merger Option would provide parallel corporate treatment for the Schools and Libraries and Rural Health Care programs and for the existing High-Cost/Low-Income programs.

The Merger Option would result in a single surviving corporation, USAC, which may give an enhanced appearance, as compared to the Subsidiary Option.

#### Disadvantages

Merging SLC and RHCC out of existence could lead to a loss of identity for the two programs since USAC as the surviving corporation is not now associated with the Schools and Libraries or Rural Health Care programs. When the USAC Board expands its scope of responsibility after the merger to administer three disparate programs -- High-Cost/Low-Income, Schools and Libraries, and Rural Health Care -- it will be less focused. The Plan of Reorganization ameliorates these risks by assigning unique and distinctive functions to the divisions and their governing committees as specified in Chapter Three. The committee and division structures will also help to preserve the identity of each program as well as the relationship of the distinct client base with the relevant High-Cost, Low-Income, Schools and Libraries, and Rural Health Care providers.

A larger organization with more diverse tasks may be more unwieldy and less responsive to applicant needs. Tailored administrative efficiencies that have been achieved to date may be diminished or eliminated in a larger, more homogenized

structure. The Plan of Reorganization recognizes this risk and therefore proposes that separate divisions, headed by a corporate officer and overseen by separate committees, take responsibility for these unique functions as provided in Chapter Three.

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#### Subsidiary Option

##### Description

By vote of their boards of directors, SLC and RHCC would amend their respective certificates of incorporation to authorize the issuance of stock. Each would then issue all of its authorized stock to USAC. Upon issuance of the stock to USAC, they would become wholly-owned subsidiaries of USAC.

To implement the Subsidiary Option, amendments to USAC's certificate of incorporation and by-laws (to be reflected in corresponding changes in the FCC Rules) would (i) reflect USAC's additional responsibilities for the schools and libraries and rural health care programs; (ii) provide for separate subsidiaries to oversee the distinctive mission and expertise of these programs; (iii) provide the subsidiaries with the power to bind USAC financially; (iv) specify the make-up of the boards of these two subsidiaries; (v) identify the distinctive functions that fall within the ambit of each subsidiary and the common functions that fall within USAC's general ambit; and (vi) provide that the certificate of incorporation and bylaws may not be amended by USAC's Board without a corresponding change in FCC rules or prior FCC approval. These provisions generally parallel the provisions in the current USAC certificate of incorporation and by-laws that are applicable to its High Cost and Low Income Committee. Corresponding amendments to SLC and RHCC's corporate documents would also be adopted.

##### Advantages

The Subsidiary Option would preserve the separate missions of SLC and RHCC with the greatest degree of permanence, certainty and visibility. However, as stated above, the distinctive missions can be easily maintained through the establishment of separate divisions and their governing committees.

Maintenance of the existing corporations as subsidiaries may be less confusing for applicants, potential applicants and telecommunications service providers. However, because carriers need to interact with all four programs, they may find greater efficiencies from interacting with the programs under the Merger Option.

##### Disadvantages

The Subsidiary Option would maintain the existence of three corporations, although two would be mere subsidiaries of USAC, and all common functions would have been removed from their authority. Three separate corporations would also mean three separate boards of directors. Thus there would be no cohesive oversight or review of all four programs. The lack of a single entity monitoring all four programs would make it less likely that common efficiencies would

be realized going forward. Decision making for each program would be isolated from the other programs, also increasing the likelihood of less effective administration of the four programs.

A third Subsidiary, High Cost/Low Income, should be established to ensure that the unique functions of those programs are preserved and to ensure that appropriate attention and focus to those programs as well. This would add one additional corporation with one additional board.

The Subsidiary Option would also introduce significant complications in the mechanics of restructuring, necessary to avoid potential adverse tax consequences.

The Subsidiary Option would also probably result in a greater number of officers and employees, therefore increasing the personnel and administrative costs.

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Recommendation

The Report and Plan of Reorganization recommends that the FCC propose adoption of the Merger Option. USAC and SLC believe that the Merger Option with the provisions for consolidation and efficiencies and the protections built in preserve the unique functions and missions of the four programs best accomplish the goals outlined in Chapter One.

## Conclusion

The Report and Plan of Reorganization that we are submitting today complies with the request in the May 15, 1998 letter from Mr. A. Richard Metzger and is consistent with the Commission's May 8, 1998 Report to Congress. The new single corporate entity, USAC, will bring efficiencies to the operation of all four programs by combining certain common functions and operations where economies are likely in fact to be achieved. In addition to bringing significant efficiencies it will also ensure that the unique missions and functions of the previous three corporate entities will be effectively administered and implemented.

The USAC Board of Directors will be responsible for the operation and administration of all universal service programs. Consolidation of certain responsibilities will bring the efficiencies and accountability that the Commission and the Congress are seeking. Three key board committees will be responsible for the three program areas: High-Cost/Low-Income, Schools and Libraries, and Rural Health Care. Two of the committees proposed are new and the structure of those committees will be patterned after the High Cost and Low Income Committee. The new committees will have specific authority for the program areas similar to those proposed for the current High Cost and Low Income Committee as proposed in this report. The new USAC board in cooperation with the two new Committees and the existing Committee will ensure that the unique functions will be preserved and the programs will be effectively administered. The Plan of Reorganization can be found in Appendix A.

USAC will have three divisions for each of the universal service programs: High-Cost/Low-Income, Schools and Libraries, and Rural Health Care. These divisions will report to the CEO of USAC, and they will have responsibility for managing the unique functions identified in Chapter 3. This structure replicates that of the USAC Board and ensures that the new USAC Board and organizational structure can accomplish the twin goals of the reorganization: efficient and effective administration of the programs.

We have reviewed all of the functions that are performed by all three corporations and to the extent that it is cost effective to combine those functions and, where the consolidation or combination of those functions will not jeopardize program performance, we are recommending consolidation. The USAC CEO will be

a member of each Board Committee which will allow for further coordination and consolidation, where appropriate. Chapter 3 identifies the functions and operations that can be combined to achieve efficiencies and also identifies those functions that must remain separate to ensure that the unique missions of each of the three universal service programs are achieved.

In proposing this Plan we have kept the twin goals of efficiency and effectiveness in mind and specifically have developed a plan that:

- Consolidates Common Functions and Operations
- Maintains Accountability to the Commission
- Preserves Strong Safeguards and Audit Checks
- Provides Continuity in the Administration of the Support Mechanisms
- Preserves the Unique Missions, Expertise and Integrity of the High-Cost/Low-Income, Schools and Libraries and Rural Health Care Programs
- Provides for Professional Administration of the Funds
- Preserves Excellent Client Service to Each Client Base

The Board of Directors and the Officers of USAC and SLC believe the Report and Plan of Reorganization meets the requirements of the Commission and the Congress. Appendix C details how the Plan incorporates each of the mandates from the Commission and from Congress.

We are committed to implement this Plan or the plan approved by the Commission in an efficient and expedient manner. We understand that the implementation of the plan must be successful in order to achieve these goals and in order to effectively administer the Universal Service Programs that are so critical to the citizens of this country.

# Appendix A – Plan of Reorganization

## Appendix A-1

### Divesting USAC

#### Changes Needed to Accomplish Divestiture

Divesting USAC from NECA will be easy to accomplish given the arms-length relationship between the two companies. The shares of USAC stock held by NECA as sole owner of USAC would be canceled without payment to NECA.

Divestiture of USAC from NECA is expected to have minimal impact on USAC operations. Contracts entered into by USAC prior to divestiture may continue in effect (including USAC's contract with NECA for administrative services), and any personnel employed by USAC at the time of divestiture will retain their status as USAC employees or contractors.

USAC currently receives various services and benefits indirectly through its subsidiary relationship with NECA. For example, USAC's activities are covered under various NECA insurance policies (and its Directors are covered under NECA's Directors and Officers Liability policy) by virtue of USAC's affiliation with NECA. Upon divestiture, USAC will need to establish its own contractual relationships with insurers, banks, and other firms offering necessary corporate services.

Prior to divestiture, NECA will need to review its leases and contracts with various real estate, software, telecommunications, consulting firms and other vendors to assure that services currently obtained by NECA that are used for USAC purposes may continue to be so used following divestiture. In cases where use of services, licenses or real estate is limited solely to NECA and its affiliates, NECA will need to negotiate contract amendments to assure continuity of service.

Upon FCC approval, USAC can be reconstituted in Delaware as a non-stock corporation, by filing revised papers with the Delaware Secretary of State. Corresponding changes will be made in USAC's corporate governance documents. USAC's tax status will not change. There is no reason to seek tax-exempt status, since USAC would continue to flow through all contributions less expenses to fund recipients and would pay taxes only to the extent it had nondeductible expenses.

#### Structure

USAC should be set-up as a non-stock, non-profit, non-member corporation. FCC rules should continue to specify the composition of the board by group and number. It would be up to these groups to nominate representatives for the next term or to fill vacancies. The nominees would then be elected by the board. The FCC should continue to approve individual board member selections.

#### Recommendations

We propose in this Report that USAC be named the permanent administrator and that USAC be divested from NECA. This proposal is consistent with NECA's statement in its January 10, 1997 letter that, if USAC were selected as the permanent administrator, USAC should be divested from its affiliation with NECA. Insofar as USAC has been successfully operating for nearly one year, there is no continuing need to remain affiliated with NECA to facilitate the sharing of resources and personnel. Divesting USAC from NECA would not prevent USAC from entering into agreements with NECA for the performance of particular administrative functions. This will provide continuity in the administration of the support mechanism for all universal service programs.

We recommend that divestiture occur as soon as possible. USAC will develop a proposal for implementation.

## Appendix A-2

### Structure of USAC's Board of Directors After the Reorganization

As part of the reorganization, the USAC CEO will be added to the Board of Directors and two additional committees will be constituted, which will be modeled on the existing USAC Board and High Cost and Low Income Committee structure. This new structure will preserve the neutral composition of the USAC Board and preserve the knowledge and expertise related to the unique missions and functions of the entities being merged into USAC. As part of this structure, the two new committees will be the Rural Health Care Committee and the Schools and Libraries Committee. These two new committees, as well as the High Cost and Low Income Committee, will be vested with powers and authority appropriate for continuing their unique missions and programmatic functions.

After the reorganization, USAC's Board of Directors will consist of 18 members, 17 who will serve staggered three-year terms and the USAC CEO. Initially the members of USAC's Board of Directors will include the following persons:

- Current members of USAC's Board of Directors
- USAC's chief executive officer

The terms of six members will expire on October 1, 1999, those of another six members will expire on October 1, 2000, and those of the remaining five members will expire on October 1, 2001 (collectively, the "Initial Terms"). The FCC will determine which members' Initial Terms will expire on each of the foregoing expiration dates, except that the USAC chief executive officer will be a permanent member of the board and will not have a term that expires. As the Initial Terms expire, the terms of successor members of USAC's Board of Directors will continue to be staggered, with the terms of approximately one-third of the directors expiring each year. At an annual meeting of USAC's Board of Directors, shortly prior to each such expiration, successors to the directors whose terms are expiring will be nominated and selected pursuant to 47 C.F.R. §69.614, from the private sector and representing a cross-section of industry and beneficiary interests, as follows:

- Three directors representing ILECs
- Two directors representing IXC's
- One director representing CMRS providers
- One director representing CLECs
- One director representing cable operators
- One director representing information service providers

- Three directors representing eligible schools
- One director representing eligible libraries
- One director representing eligible rural health care providers
- One director representing low-income consumers
- One director representing state telecommunications regulators
- One director representing state consumer advocates
- The chief executive officer of USAC

Persons so nominated and selected by the FCC Chairperson as members of USAC's Board of Directors shall then be elected to office by the incumbent directors.

USAC's Board of Directors will manage the business and affairs of USAC, except that an action of certain committees of the board, taken in compliance with the provisions of USAC's by-laws governing such committees, as discussed below, will be binding upon USAC's Board of Directors as if such action was duly taken by the full USAC Board (unless such action is with respect to approval of a budget or such action is presented by the chief executive officer to USAC's Board of Directors for review, and, in either event, USAC's Board of Directors disapproves such action by a two-thirds vote of a quorum of directors (a Board Disapproval)).

#### High Cost and Low Income Committee of the Board of Directors

The provisions of USAC's by-laws governing the High Cost and Low Income Committee of USAC's Board of Directors will be modeled on those currently in effect, including the provisions granting to such committee the power and authority (absent a Board Disapproval) to bind USAC's Board of Directors as to any programmatic matter relating to the High-Cost/Low-Income support mechanisms. USAC's Board of Directors will not have the power or authority to remove, or to modify in a material way the power and authority of, the High Cost and Low Income Committee, without FCC approval.

The High Cost and Low Income Committee will consist of eight members of USAC's Board of Directors, including one low income representative, two state public representatives, one ILEC representative, one IXC representative, one CLEC representative, one wireless representative, and USAC's chief executive officer.

The USAC by-laws will be amended to reflect these arrangements.

#### Rural Health Care Committee of the Board of Directors

USAC's Board of Directors will appoint a Rural Health Care Committee having the power and authority (absent a Board Disapproval) to bind the board of directors as to action on a programmatic matter relating to rural health care support mechanisms. The agreement of merger between USAC and RHCC will establish the USAC director to represent rural health care and who in turn will serve on the Rural Health Care Committee. The committee's powers include (i) determining how USAC will project demand for rural health care programs, (ii) developing applications as needed for programs, (iii) administering the application process, (iv) determining discount levels, (v) performing outreach and education functions, and (vi) developing and implementing other distinctive program functions. The Rural Health Care Committee will not have the power or authority to bind the board of directors in matters related

to billing, collection, and disbursement functions. USAC's Board of Directors will not have the power or authority to remove, or to modify in a material way the power and authority of, the Rural Health Care Committee without FCC approval.

The Rural Health Care Committee will consist of seven members of USAC's Board of Directors, including one rural health care provider representative, one service provider representative, two at-large representatives elected by the USAC board, two state public representatives, and USAC's chief executive officer.

The USAC by-laws will be amended to reflect these arrangements.

#### Schools and Libraries Committee of the Board of Directors

USAC's Board of Directors will appoint a Schools and Libraries Committee having the power and authority (absent a Board Disapproval) to bind the Board of Directors as to action on a programmatic matter relating to the schools and libraries support mechanism. The agreement of merger between USAC and SLC will establish the USAC directors to represent schools and libraries and who in turn will serve on the Schools and Libraries Committee. The committee's powers include (i) determining how USAC will project demand for schools and libraries program; (ii) developing applications and associated instructions as needed for programs; (iii) administering the application process, including the performance of activities to ensure compliance with FCC rules and regulations; and (iv) performing outreach and education functions, and (v) developing and implementing other distinctive program functions. The Schools and Libraries Committee will not have the power or authority to bind the board of directors in matters related to billing, collection, and disbursement functions. USAC's Board of Directors will not have the power or authority to remove, or to modify in a material way the power and authority of, the Schools and Libraries Committee without FCC approval.

The Schools and Libraries Committee will consist of seven members of USAC's Board of Directors, including three school representatives, one library representative, one service provider representative, one at-large representative elected by the USAC board, and USAC's chief executive officer.

The USAC by-laws will be amended to reflect these arrangements.

# Appendix A-3

## Structure of the Organization After Reorganization

Description of Organization--Articles of Incorporation and by-laws.

Consistent with the approach already taken by the three companies, the combined USAC will have a small core group of permanent staff who will supervise the work of contractors for many of the administrative functions.

The USAC operations will consist of three program divisions: High-Cost/Low-Income, Schools and Libraries and Rural Health Care, each of which will be headed by a corporate officer and will have assigned staff. These divisions will not have responsibility for the general USAC functions of collecting funds from contributors and disbursing these funds to program recipients and for those common functions identified in Chapter 3. To the extent practicable and depending upon the needs of the different programs, staff activities may be integrated across division lines. All staff will report directly or indirectly to the USAC CEO.

Aside from changes necessary to accommodate the new USAC Board and committee structure, USAC's corporate documents are adequate for the organization structure outlined above.

USAC will need to develop a method for allocating common costs to ensure a fair and accurate allocation of costs to the different programs. USAC will file a proposed allocation method with the Commission for review.

USAC, including the program divisions, will, as the Commission suggests, apply its expertise to interpreting and applying existing decisional principles, but will not make policy or create the equivalent of new guidelines, or interpret the intent of Congress.

### Existing Contracts

USAC, SLC and RHCC have contracts with outside vendors for various services. Each has a principal services agreement with a single vendor for the development and operation of certain systems and other aspects of program administration.

By virtue of the merger, existing SLC and RHCC contracts will enable USAC to provide continuity to the beneficiaries and recipients of the support mechanisms during the period of reorganization. In some cases, contracts may be renegotiated or legally terminated, based on existing contract provisions, where to do so would improve service and achieve economies without disrupting program operations.

### Employee Rights, Contracts or Benefits

All USAC, SLC and RHCC employees will be offered positions of generally equivalent responsibility by USAC. They will receive the same or comparable compensation and benefits, subject to any applicable Commission or congressional limitations. To the extent SLC and

RHCC have different personnel practices and benefits, any consolidation of these programs under USAC will attempt to preserve their value to employees.

#### Preserving the Unique Missions

Preserving the unique missions of the High-Cost/Low-Income, Schools and Libraries, and Rural Health Care programs is paramount. Changes in USAC board and committee structure and organization design, as well as transfers of existing contracts and employees are being planned with full appreciation of the special characteristics and challenges of each program, including the substantial implementation work that is in place for the High-Cost/Low-Income programs and has been completed by the SLC and RHCC. Following consolidation of the corporations, integration of functions will be pursued only after thorough review and confirmation of benefit to each program.

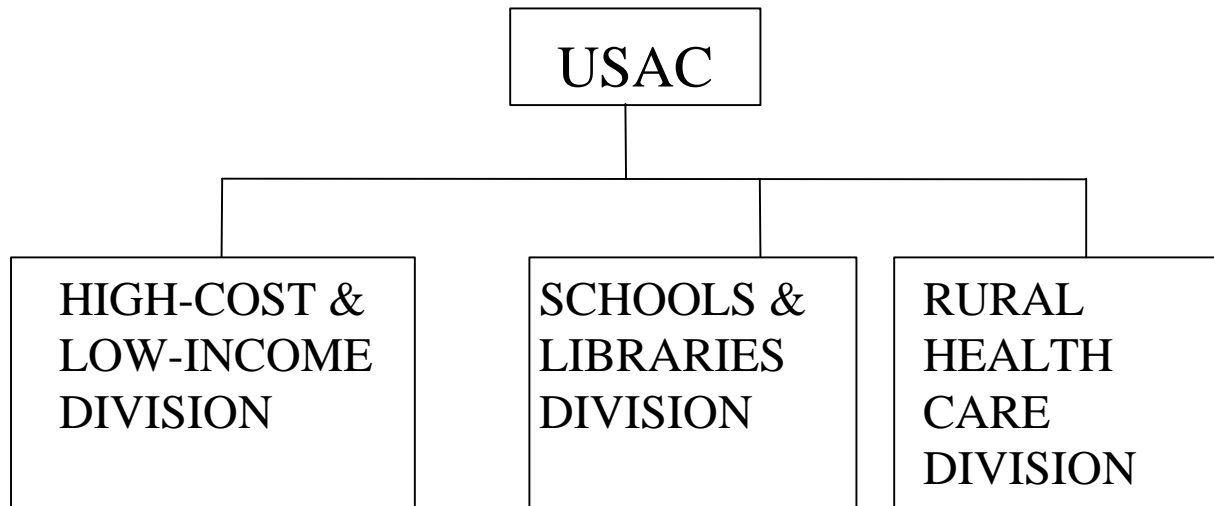
#### Preserving the Unique Administrative Systems and Expertise

SLC and RHCC each have made considerable progress in acquiring expert staff, building working relationships with contractors and establishing systems and procedures to carry out their unique responsibilities. Effective outreach to the schools and libraries and rural health care communities is essential to the success of these programs. Much has been accomplished in this area, as well. The reconstituted USAC will need to support this work and find ways to complement and add value to what has already been achieved. USAC also has considerable systems and expertise in place to implement the High-Cost/Low-Income programs. Any consolidation must preserve the unique functions associated with these programs as well.

# Appendix A-4

## Organizational Chart

THE NEW USAC ORGANIZATIONAL STRUCTURE



# Appendix B

## FCC Rule Changes Needed to Reflect Consolidation of Schools and Libraries and Rural Health Care Support Program Administration in USAC and Creation of New USAC Support Program Committees

The Commission's proposal to consolidate SLC and RHCC into USAC will require some changes to the current rules. Currently, Part 54 addresses universal service (US) support programs for High-Cost areas, low-income consumers, and eligible schools, libraries and rural health care providers. Part 69 addresses NECA's functions and responsibilities as an association, as well as the USAC, SLC and RHCC's creation and their respective administrative functions.

Generally, rules pertaining to US administration should be consolidated in Part 54. If revised rules are promulgated prior to the time that SLC and RHCC are merged into USAC, it will be necessary to maintain current rules regarding the corporations. After the effective date for USAC and the new committees to assume administrative responsibilities for the programs, old rules regarding SLC and RHCC can be deleted.

Suggested Changes to Part 54:

- Amend the definition of Administrator, removing references to NECA and its independent subsidiary and defining USAC as Administrator, subject to FCC review after one year.
- Establish an effective date for SLC and RHCC to cease operations and for USAC to assume US administrative responsibilities.
- Add new definitions for the Schools and Libraries and Rural Health Care Committees. Add rule provisions that describe the creation, composition, functions and authority of the Schools and Libraries Committee, the Rural Health Care Committee and the High Cost and Low Income Committee. Rule language can be similar to current provisions in Part 69 governing SLC, RHCC, and the High Cost and Low Income Committee, with consideration given to the common functions to be administered by USAC as well as USAC's overall responsibilities and fiduciary duties as the consolidated entity. However, the language would need to reflect the oversight provided to the full USAC Board and the Board disapproval process, as described in Appendix A-2.

**USAC's overall responsibilities and fiduciary duties as the consolidated entity.**

- Reflect change in USAC Board composition, noting addition of USAC's CEO.
- Remove provisions relating to selection process for a permanent administrator, including references to the Federal Advisory Committee.
- Adapt the financial rules on transactions between USAC and SLC and RHCC to the consolidated entity.

Suggested Changes to Part 69:

- Generally, include a sunset date for SLC and RHC within current Part 69 provisions regarding the corporations (rules can be deleted following effective date of USAC administration).
- Include provisions relating to divestiture of USAC from NECA. Part 69 rules should continue to permit USAC to enter into contracts with NECA for the performance of particular administrative functions.
- Modify rules to reflect consolidated entity and, where appropriate, cross reference Part 54 rules for US administrative functions.

# Appendix C

## Congress and FCC Requirements Addressed in the Plan

This appendix provides a summary of the Reorganization requirements in S. 2004 of S. 1768, in the Conference Report accompanying H.R. 3579, and the FCC May 8<sup>th</sup> Report to Congress and how this Report and plan meet those requirements.

	Requirement	How the Requirement is Met By the Plan
Congress - Senate Bill 1768, S2004(b)(2)	The Report should propose a revised structure for the administration of the programs. The revised structure shall consist of a single entity.	<ul style="list-style-type: none"> <li>• The corporations will merge into one single company, USAC, to administer all four programs.</li> <li>• All programs will be governed by one board and managed by one CEO.</li> <li>• The Report recommends that USAC be divested from NECA.</li> </ul>
Congress - Senate Bill 1768, S2004(b)(2)(A)(i) & (ii)	USAC's authority should be limited to ministerial acts of processing the applications. May not administer the programs in any manner that requires it to interpret the intent of Congress or any FCC rule.	<ul style="list-style-type: none"> <li>• The applications will be processed in accordance with FCC rules.</li> <li>• USAC will make quarterly filings (or more frequently if requested) with the FCC regarding each fund.</li> <li>• The FCC reviews the structure and content of the independent audit of USAC.</li> <li>• The FCC will determine the amount to be collected and distributed.</li> <li>• The FCC will determine the amount of money allocated to each program.</li> </ul>
Congress - Conference Report	Take into account the distinct mission of providing universal service to rural health care providers.	<ul style="list-style-type: none"> <li>• USAC by-laws will provide for specific committees of the Board for SL and RHC.</li> <li>• The SL and RHC Committees will have independent decision making with regard to fulfilling the unique mission that can be modified by supermajority vote of the USAC board.</li> <li>• Separate operational divisions in USAC will assist the USAC CEO in ensuring that these distinct missions are fulfilled and will perform the unique functions.</li> <li>• Each division will be headed by an official with the targeted responsibility of achieving the specific program goals.</li> <li>• The by-laws that establish separate SL and RHC Board Committees cannot be eliminated or modified substantially without specific FCC approval.</li> </ul>

FCC - May 8 <sup>th</sup> Report to Congress	Vest the consolidated USAC with the administrative responsibilities for all universal service support mechanisms.	<ul style="list-style-type: none"> <li>• There will be a single surviving entity, USAC, achieved by merging SLC &amp; RHCC into USAC.</li> <li>• The USAC CEO will be a member of the Board and of all three program Committees.</li> <li>• The new USAC will be responsible for all universal service support mechanisms.</li> </ul>
	The consolidated USAC will remain accountable to the FCC.	<ul style="list-style-type: none"> <li>• USAC will be required to follow FCC rules.</li> <li>• The FCC Chairperson will have final decision-making authority with regard to Board appointments.</li> <li>• USAC will make quarterly filings (or more frequently if requested) with the FCC regarding each fund.</li> <li>• The FCC reviews the structure and content of the independent audit of USAC.</li> <li>• The FCC will determine the amount to be collected and distributed.</li> </ul>
	The functions, assets, employees, rights and liabilities of SLC and RHCC should be transferred to USAC by January 1, 1999.	<ul style="list-style-type: none"> <li>• Pursuant to agreements of merger the assets, employees, rights and liabilities of SLC &amp; RHCC would be transferred by January 1, 1999.</li> <li>• The articles of incorporation and by-laws of the new USAC will reflect establishment of separate committees for the SL and RHC programs.</li> </ul>
	Jointly prepare and submit a plan of reorganization.	<ul style="list-style-type: none"> <li>• The Report and Plan were developed with the help of all three corporations.</li> <li>• The USAC and SLC have approved the Plan of Reorganization.</li> </ul>
	The plan must detail how USAC proposes to structure its organization and operations pursuant to established principles and requirements of corporate law and language in Section 2004 of the Senate Bill.	<ul style="list-style-type: none"> <li>• Corporate counsel for all three companies has been directly involved in the development of the Plan to ensure that it is consistent with established principles and requirements of corporate law.</li> <li>• See above discussion of consistency with Section 2004 of S. 1768.</li> </ul>
	The specialized knowledge and expertise of SLC and RHCC should be maintained in a unified structure.	<ul style="list-style-type: none"> <li>• The by-laws will provide for specific committees of the Board for SL and RHC.</li> <li>• The SL and RHC Committees will have independent decision making with regard to fulfilling their unique missions that can be modified by a supermajority of the board.</li> <li>• Separate divisions in USAC will assist the USAC CEO in ensuring that these distinct</li> </ul>

		<p>missions are fulfilled and will perform the unique functions.</p> <ul style="list-style-type: none"> <li>• These divisions will be headed by an individual committed to these programs and knowledgeable in the areas.</li> <li>• The by-laws that establish separate SL and RHC Board Committees cannot be eliminated or modified substantially without specific FCC approval.</li> <li>• The SL and RHC Committees will be structured as necessary to preserve the integrity of the funding allocated to the SLC and RHCC programs.</li> <li>• The FCC, not USAC, determines the amount of money allocated to each program.</li> </ul>
	The joint proposal must be responsive to the Conference Committee report.	<ul style="list-style-type: none"> <li>• See above.</li> </ul>
	The existing SLC & RHCC Boards may become subsidiaries or committees of the USAC Board.	<ul style="list-style-type: none"> <li>• The Report recommends, as discussed above, the formation of Board Committees rather than Boards of separate subsidiaries.</li> </ul>
	The reorganization plan must delineate how the administrative systems and expertise that RHCC and SLC have developed, which differ from those required to administer the High-Cost fund and Low-Income support mechanisms, will be preserved in USAC.	<ul style="list-style-type: none"> <li>• Chapter Three of the Report identifies the common and unique functions for SLC, RHCC and the High-Cost/Low-Income programs.</li> <li>• The unique functions and administrative systems will remain separate.</li> <li>• Those functions and systems would be the responsibility of the divisions.</li> <li>• The Board committees would have oversight over those unique functions.</li> </ul>
	The plan may include a proposed organizational framework for staffing within USAC involving divisions or other operational units charged with specialized duties.	<ul style="list-style-type: none"> <li>• Separate divisions for each of the unique program functions would be established, as reflected in the Plan's proposed organizational structure.</li> <li>• Chapter Three identifies the unique functions and systems for which each division would be responsible.</li> </ul>
	The plan must address the transfer of employee's contractual rights, benefits and obligations of SLC and RHCC, including the assumption of contracts for services that SLC and RHCC has entered into and with subcontractors in connection with	<ul style="list-style-type: none"> <li>• All employee rights will be preserved. All current employees will become employees of USAC.</li> <li>• All contracts will be transferred to USAC when the merger is consummated. Each contract will be reviewed to determine whether it should be renewed, renegotiated or assigned. This review is consistent with</li> </ul>

	the performance of their administrative responsibilities.	<p>the discussion in Chapter Three to consolidate functions to the extent cost effective and allowed under contract.</p> <ul style="list-style-type: none"> <li>• Unique functions, operations and relationships with contractors and subcontractors will be preserved as discussed in Chapter Three of the Report.</li> <li>• All employee benefits will be preserved, however, this is an area that will be reviewed to determine if consolidation of those benefits is cost effective. Any consolidation would preserve benefits for employees.</li> </ul>
	USAC should be divested from NECA after review of the performance of USAC.	<ul style="list-style-type: none"> <li>• USAC will be divested from NECA as soon as reasonably possible.</li> </ul>
FCC - May 13, 1998 Letter to USAC, SLC & RHCC Boards	The letter does not identify any additional requirements from those included in the May 8 <sup>th</sup> order with the exception of providing the due date of July 1, 1998 for the Plan of Reorganization.	<ul style="list-style-type: none"> <li>• See above for how the Report and Plan comply with the requirements.</li> <li>• The boards of directors submitted the Report within the deadline established by the May 13<sup>th</sup> letter.</li> </ul>

# Separate Statement of the Rural Health Care Corporation and Request for Three Changes in the Plan

The Board of Directors of the Rural Health Care Corporation (RHCC) submits this statement to express its position regarding the accompanying Report and Plan.

RHCC has participated fully and actively with USAC and SLC in the joint effort to develop an appropriate reorganization proposal. In that process, we have exerted every effort to reach a consensus with USAC and SLC concerning the reorganization plan.

After careful consideration, we have concluded that we can support the proposed plan only if three changes are made to bring the plan more fully into conformity with the directives provided by Congress and the Federal Communications Commission.<sup>1/</sup> We respect the honestly held views of those who support the Report and Plan as presently written. But we believe that the three changes we describe below are needed to enable the Plan to fulfill one of the two central objectives of the proposed reorganization. We therefore believe ourselves obligated, as Directors of the RHCC, to advocate the changes we believe are appropriate.

We set forth below (1) the basic reasons we believe changes are needed, (2) the specific changes we propose in order to bring the Plan into conformity with Congressional and Commission directives.

## **1. Reasons for Changes**

The task set before USAC, SLC and RHCC was to develop a reorganization plan that achieved two fundamental objectives:

- !** Combine the three organizations in a manner that achieves increased efficiency.

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<sup>1/</sup> By virtue of the timetable for submission of the Report and Plan, RHCC will not have had the opportunity to review the final version before submitting this Separate Statement. Based on earlier drafts, we believe, but cannot be certain, that there will be no additional points in the Plan with which we disagree. However, there are statements in the Report with which we do disagree. Unless requested to do so by the Commission, we do not believe it is necessary or desirable to describe these differences. Instead, this Statement focuses on the few important changes that would make the Plan consistent with Congressional and Commission directives and would enable us to support it.

- ! Maintain the specialized expertise and identity of the individual programs.

The two-fold character of the task was emphasized both by Congress and by the Commission.

- ! Thus, Congress specified that the revised administrative structure for the programs should consist of a single entity.<sup>2/</sup> But it also emphasized that **"any proposed administrative structure should take into account the distinct mission of providing universal service to rural health care providers, and include recommendations as necessary to assure the successful implementation of this program."**<sup>3/</sup>

- ! Similarly, the Commission directed USAC, SLC and RHCC to develop a plan of reorganization in which "the functions, assets, employees, rights and liabilities of SLC and RHCC would be transferred to USAC . . ."<sup>4/</sup> But the Commission also made clear its expectation that **"the specialized knowledge and expertise of SLC and RHCC would be maintained in the unified structure."**<sup>5/</sup> To this end, the Commission stated:<sup>6/</sup>

- **"The joint proposal must be responsive to the direction of the Conference Report that `any proposed administrative structure should take into account the distinct mission of providing universal service to rural health care providers, and include recommendations as necessary to assure the successful implementation of this program.'"**
- **"To that end, the existing SLC and RHCC boards may become subsidiaries or committees of the USAC board."**
- **"In particular, we contemplate that any such proposed operational units have the power to bind the USAC Board on certain specialized matters comparable to the power and authority vested in the current High Cost and Low Income Committee of USAC."**

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<sup>2/</sup> Section 2005(b) of S. 1768.

<sup>3/</sup> Conference Report on H.R. 3789, H. Rep. No. 105-504.

<sup>4/</sup> FCC Report to Congress in Response to Senate Bill 1768 and Conference Report on H.R. 3579, adopted and released May 8, 1998 (hereafter, "FCC May 8 Report"), ¶ 10.

<sup>5/</sup> FCC May 8 Report, ¶ 11.

<sup>6/</sup> FCC May 8 Report ¶ 11.

- **"This power should include the ability to make binding decisions on issues related to the schools and libraries and rural health care support mechanisms . . ."**
- **"In addition, the reorganization plan must delineate how the administrative systems and expertise that RHCC and SLC have developed . . . will be preserved in USAC."**

This aspect of the proposed reorganization is of particular importance to RHCC because there are special reasons for concern as to the future of the RHCC program in the unified structure. Our program is very limited in size in relation to USAC's overall combined mission; our beneficiaries are by definition relatively remote and more difficult to reach; and they are almost entirely different beneficiaries from those served by the other universal service programs. Notwithstanding everyone's good intentions, there is real reason for concern that the interests and needs of our program beneficiaries -- the Nation's rural health care providers -- will take second or third or fourth place behind the needs of other, larger programs.

We therefore consider it **critical** that the second objective of the reorganization be achieved -- **that the specialized expertise and separate identity of our program be preserved in the unified structure.**

Without the changes we propose, the proposed Plan will not adequately accomplish this objective. Despite the directives quoted above from the Congress and the Commission, the Plan does **not** augment the governing body of the combined organization with **any** of the available existing expertise relating to the rural health care program and does **not** provide the merged rural health care division with the ability to preserve the identity and mission of the program. The need for changes in both of these respects is explained further below:

**Expertise:** Although Congress singled out the rural health care program for special mention and concern, and the Commission's May 8 Report expressly contemplated that the RHCC Board would become a subsidiary or committee of the USAC Board, the Plan takes the position that there must be **no** new rural health care representation whatever on the USAC Board.

Thus, if the Plan were to be adopted without further change, the composition of USAC's Board would remain as it was at a time when USAC performed only accounting-type functions (billing, collection and disbursement) and had no responsibility whatever for the substantive aspects of the rural health care program. As so composed, the Board includes only one (of 18) directors representing rural health care and one telecommunications industry representative who has served on the RHCC Board. In other words, the rural health care program for which Congress expressed special concern would have one (or two) representatives on the combined Board, while the schools and libraries program has four (or five) representatives and the telecommunications industry holds nine Board seats.

In this respect, we believe the Plan does not adequately fulfill the directives given by Congress and the Commission. It also deprives USAC of the added experience and continuity it would have if the USAC Board included the other two RHCC directors, including the RHCC director most closely identified with the rural health care provider community.

**Program Identity and Mission:** The principal structural mechanism needed to assure that the identity and mission of the rural health care program will be preserved is, as the Commission made clear, the establishment of a separate committee of the USAC Board with authority to make binding decisions concerning the unique aspects of the program. The Plan as currently drafted does not adequately achieve this critical objective, in two inter-related respects.

First, because USAC itself under the Plan will have only a single director representing rural health care, the proposed committee likewise will have only one such member. Thus, the group that is supposed to be relied upon to preserve the special mission of the program will consist almost exclusively of members who do not represent the rural health care community. (In contrast, the equivalent committee relating to the schools and libraries program will include four representatives of schools and libraries, who would comprise a majority of the committee.)

Second, even as so constituted, the rural health care committee will not have the ability to make any binding decisions. The Plan provides that any decision the committee makes can be overridden by the USAC Board. (The override would require a two-thirds vote, but this would provide no meaningful protection for the program, given the fact that far more than two-thirds of the USAC Board members would represent interests other than rural health care.)<sup>2/</sup>

Without adequate rural health care representation on the USAC Board and without meaningful protection for the mission of the program, there is reason to expect that, when priorities must be set, the needs of the rural health care program will be forced to give way -- not because of any malice or ill-will, but because the unified structure will consist predominantly of individuals whose principal responsibilities lead them to give greater attention to other concerns.

We believe that these aspects of the Plan need to be changed to make it more fully consistent with the directives provided by the Congress and the Commission, and more consistent with the needs of the rural health care community that we were appointed to serve. We therefore express our hope that the Commission will adopt the limited changes in the Plan that we describe below.

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<sup>2/</sup> In its latest iteration, the Plan seems to provide that non-budgetary decisions made by the Rural Health Care Committee could only be reviewed by the USAC Board if the USAC CEO wishes to raise them, but since the USAC CEO serves at the will of the USAC Board, this provision affords scant protection against overrides of non-budgetary decisions as well.

**The points in dispute here do not relate to the achievement of efficiencies. RHCC is not seeking to change those aspects of the Plan that propose combining USAC, SLC and RHCC functions where doing so would produce gains in efficiency. Our changes relate entirely to the need more adequately to address the other critical objective of the reorganization -- preserving the identity and unique functions of the program.**

## **2. Relief Requested**

For the Plan to be implemented, it will be necessary for USAC and RHCC to negotiate and enter into an agreement of merger with each other. Such an agreement necessarily must be one that RHCC's Board can accept. All of RHCC's directors believe that the Plan proposed by USAC can be accepted only if it is modified to include the changes described below.

**1. Two additional rural health care representatives should be added to the USAC Board, and the merger agreement between USAC and RHCC should identify the individuals who initially would comprise the combined Board and who would serve on the initial Rural Health Care Committee of the USAC Board.**

**2. The Rural Health Care Committee should have authority to bind USAC financially and otherwise with respect to the programmatic aspects of the rural health care program, and the Committee's decisions on such matters should not be subject to being overridden by the USAC Board.**

**3. The CEO of USAC should have the authority to hire and fire the head of the rural health care division of USAC, who in turn should have the authority to hire and fire personnel within that division.**

These changes would bring the Plan more fully into conformity with the expressed intent of Congress and the Commission:

**!** The changes would afford the rural health care community two representatives rather than only one on the USAC Board (still fewer than the four schools and libraries representatives) plus one additional public or independent member. This would provide needed continuity and expertise regarding the rural health care program by affording USAC's Board the benefit of the experience of the other two RHCC directors, including the director most closely identified with the rural health care provider community.

RHCC does not believe that an increase of two in the size of the USAC board should be a matter of concern. No significant costs are involved, as Board members are unpaid. If others have concerns as to the size of the Board, those concerns could be addressed by reducing other representation, such as the nine seats held by telecommunications industry representatives.

- ! The change relating to the Rural Health Care Committee would make its composition somewhat more consistent with the Commission's expectation that the current RHCC Board would become a committee of USAC, and that the Committee should have authority like that of the current High Cost/Low Income Committee to make binding decisions within its area of responsibility.
- ! The change relating to authority to hire and fire personnel would assure that the CEO of USAC would have ultimate control over personnel, but would bring decision-making regarding staffing within the rural health care division more closely into conformity with the intent that the separate identity and expertise of the program be preserved in the combined structure.

We respectfully urge that the Commission:

- (a) modify the Plan as specified above before publishing the Plan for public comment;
- (b) failing that, publish this Separate Statement along with the Plan and expressly invite public comment on both the Plan and our proposed modifications.

Respectfully submitted,

Sanford D. Greenberg

Dr. Jay Sanders

Isiah C. Lineberry

Kevin G. Hess